

1 **Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
2 **OCCUPATION?**

3 A. James M. McDaniel, 101 Executive Center Drive, Columbia, South Carolina. I am
4 employed by the Public Service Commission of South Carolina (Commission) as
5 Chief of the Telecommunications area of the Utilities Department.
6

7 **Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND**
8 **AND YOUR BUSINESS EXPERIENCE?**

9 A. I received a Bachelor of Science Degree in Engineering from the University of South
10 Carolina in December of 1975. I was employed by the Public Service Commission
11 of South Carolina in February of 1976, where I have always worked in the Utilities
12 Department. My specific assignments have been in the area of regulation of the
13 telecommunications industry.
14

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

16 A. Yes. During my tenure with the Commission, I have offered testimony in
17 proceedings concerning ratemaking, rate design, depreciation, rulemaking, and
18 complaints.
19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. As part of Staff's review of the various company filings, I was assigned the task of
22 reviewing BellSouth's proposal for additional Universal Service Funding. I
23 reviewed tariff filings and supporting documentation. In addition, I reviewed
24 BellSouth's testimony. The overall purpose of my review was to determine whether
25 the company's proposal comported with the Commission approved Universal
26 Service Guidelines.
27

28 **Q. WHAT WAS BELL SOUTH'S PROPOSAL?**

29 A. BellSouth submitted proposed reductions in its switched access rates. The purpose
30 was to remove some of the implicit subsidies contained in its switched access rates.
31 BellSouth's proposal reduced switched access rates to a targeted composite rate of
32 \$0.01/minute. The revenue impact is a reduction of \$6.829 million dollars annually.

1 The new switched access rates will be in line with the switched access rate for
2 BellSouth in other states within the region. Additionally, these intrastate rates will
3 be closer to interstate rates. With this proposed reduction in switched access rates,
4 BellSouth's settlements with incumbent local exchange carriers are also impacted.
5 The revenue impact of settlements with incumbent independent companies is \$1.162
6 million dollars. The total annual revenue reduction proposed by BellSouth in this
7 proceeding is \$7.991 million. This is the amount BellSouth proposes to recover from
8 the Intrastate Universal Service Fund.

9
10 **Q. DID BELL SOUTH PROVIDE NEW COST STUDIES TO DEMONSTRATE**
11 **THAT THE CURRENT SWITCHED ACCESS RATES CONTAINED**
12 **IMPLICIT SUPPORT?**

13 A. No new studies were provided by BellSouth to make such a demonstration. BellSouth
14 used the results of the Commission approved TELRIC study to demonstrate the
15 existence of implicit subsidies in its current access rates. Specifically, BellSouth
16 used local switching and transport rates approved by the Commission in Order No.
17 2001-1089 as the cost floor for its proposed access rates. In the sentence beginning
18 on the bottom of Pages 5 and ending on the top of Page 6 in Order No. 2001-1089,
19 the following conclusion with respect to UNE prices is stated: "The Commission
20 examined BellSouth's proposed rates and the underlying cost studies and we agree
21 that BellSouth's proposed rates are "just and reasonable" and comply with all
22 applicable requirements of the 1996 Act and FCC rules." The Commission did not
23 make any adjustment to BellSouth's local switching and transport UNE prices to
24 promote local competition within BellSouth's service areas in South Carolina.

25
26 **Q. DO YOU THINK THE LOCAL SWITCHING AND TRANSPORT**
27 **APPROVED IN ORDER NO. 2001-1089 IS A GOOD COST PROXY FOR**
28 **SETTING THE PROPOSED RATES IN THIS PROCEEDING?**

29 A. While I am generally familiar with the cost methodology discussed by BellSouth
30 Witness McKnight, I am not an expert or trained in these cost models. I understand
31 that the cost methodology is based on a forward looking hypothetical network. I
32 think that TELRIC model may have significant variability with the cost development

1 of the feeder and distribution portion of a company's network. However, with
2 respect to switching and interoffice transport, I do not think the forward looking
3 nature of the model would reflect a significant cost variability from current switching
4 deployment versus a forward looking switching technology within a circuit based
5 telecommunications network. Therefore, I think the use of the TELRIC based
6 switching and transport prices is a reasonable cost proxy for use in this proceeding
7 by BellSouth.
8

9 **Q. WAS BELL SOUTH REQUIRED TO CONDUCT NEW COST OF**
10 **UNIVERSAL SERVICE STUDIES IN THIS PROCEEDING?**

11 A. BellSouth's current Universal Service Funding level is \$25.394 million. This amount
12 principally offsets the reduction of switched access rates from a composite rate of
13 \$0.06 per minute to a composite rate of \$0.03 per minute. The change in the
14 switched access rates also impacted the independent company toll settlements
15 because these settlements are based on switched access rates. The reduction of
16 switched access rates to the composite \$0.03 per minute rate was required by the
17 Commission in Step 1 of the Initial Phase of the Implementation of the Intrastate
18 Universal Service Fund. The total impact of the reduction of switched access rates
19 reduced BellSouth's annual revenues or implicit subsidies by \$24.677 million. The
20 remainder of BellSouth's current universal service funding offsets the intrastate
21 portion of the Lifeline Program. Under the current USF guidelines, an incumbent
22 LEC is not required to perform new cost of universal service studies until the LECs
23 funding reaches 33% of the company specific State USF cost. For BellSouth, the
24 company specific cost of universal service is \$171.058 million.
25

26 **Q. SINCE BELL SOUTH'S PROPOSAL INVOLVES A REDUCTION OF**
27 **SWITCHED ACCESS RATES, WILL THIS HAVE ANY IMPACT ON THE**
28 **INTERIM LEC FUND?**

29 A. No.
30
31
32

1 **Q. WILL YOU SUMMARIZE YOUR TESTIMONY?**

2 A. Yes. After reviewing BellSouth's proposal as well as supporting documents, I
3 concluded that BellSouth's current proposal comports with the Commission's Orders
4 and USF Guidelines.

5
6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. It does.